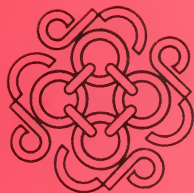


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Cooperative Development in Rural Areas



FARMER COOPERATIVES IN THE UNITED STATES

COOPERATIVE INFORMATION REPORT 1

SECTION 4

U.S. DEPARTMENT OF AGRICULTURE
ECONOMICS, STATISTICS, AND COOPERATIVES SERVICE



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Rural living is being enchanced by a variety of cooperatives. On the cover, the family of the young girl among the cabbages increased its annual income when a vegetable marketing cooperative was organized. Crafts people, always ready to demonstrate their skills, have been able to profitably market their talents by using craft cooperatives.



Cooperative Development in Rural Areas



The formation and development of farmer cooperatives has occurred in many ways. The subject may be looked at narrowly or broadly. The development of new associations since the mid-thirties may be discussed on the basis of the following:

1. The types of services provided. These have included the marketing of farm products, the purchasing and distribution of farm supplies, and the providing of specialized service such as credit, electricity, insurance, irrigation, and farm machinery use.

2. The types and resources of the farmers or members. Many cooperatives were formed by medium- to high-income commercial farmers; others were formed by low-income or subsistence farmers. Cooperatives formed by the latter groups often are referred to as "emerging" or "developing" cooperatives.

Some new cooperatives also serve other rural residents. For example, they sell petroleum products, lawn and garden supplies, and electricity to nonfarmers. Or housing, health care, and water and sewage services may be provided on a mutual or cooperative basis to both farm and nonfarm rural residents.

3. The type of government assistance or financing provided. This includes financing of conventional cooperatives by the banks for cooperatives with short or term loans at conventional interest rates as contrasted to long-term, low-interest rates by the Rural Electrification Administration; or loans to cooperatives or their members by the Farmers Home Administration; or grants provided by Community Services Administration.

Cooperatives Organized In the Past Four Decades

This period was arbitrarily selected because it covers the period since the depression years of the 1930's when several new government agencies were established to provide financial assistance to cooperatives. Data on number and types of new cooperatives formed during the period, however, are limited.

Medium- and High-Resource Farmers

Although new cooperatives have never been classified on the basis of the income of their members, many conventional marketing and supply cooperatives have been formed by commercial farmers in the past four decades. Their membership consisted mainly of medium- and high-income family farmers although many also had a number of low-income farmers.

Data for 1931-39, inclusive, indicate 3,144 new farmer cooperatives were organized, but data were not available by types except that 2,043 were primarily marketing and 1,101 were mainly supply purchasing.

Though data were not available for the 1940-56 period, during 1957-75 another 2,019 cooperatives were formed, of which 1,405 were marketing and 499 were supply purchasing. This was an average of 106 per year. More than two-thirds were formed during the first half of this period.

The number formed according to the principal product handled were:

Fruit and vegetables	310	Miscellaneous	59
Dairy	271	Special crops	58
Grain	217	Nut	<u>9</u>
Livestock	199	Subtotal	1,405
Cotton	159	Farm supplies	499
Wool	64	Related services	<u>115</u>
Poultry	59	Total	2,019

In providing specialized services, some 900 rural electric cooperatives were formed in the 1930's and 1940's. Also, a number of mutual telephone companies combined or reorganized on a cooperative basis to become eligible for loans from the Rural Electrification Administration.

The organization of local production credit associations also occurred in the late 1930's and 1940's. Some 400 were formed during this period.

Low-Resource Farmers and Others

With the advent of the Rural Resettlement Administration and later the Farm Security Administration (FSA) in the 1930's, a large number of marketing, supply, and production service-type cooperatives were formed among low-income farmers. Among the latter were several thousand farm machinery-use cooperatives set up for the sharing of cotton pickers, corn shellers, ensilage cutters, terracing equipment, and tractors and heavy machinery to a limited extent. Also from 1937 to 1942, a total of 33 cooperative farms were established. FSA made loans to farmers to buy stock in local cooperatives as well as to help finance the cooperatives.

In the late 1940's, FSA largely discontinued sponsoring and financing new cooperatives. Then in 1964, Title III of the Economic Opportunity Act permitted the Farmers Home Administration to make loans to cooperatives. From 1964 through June 30, 1971, FmHA made 1,316 loans totaling more than \$20.9 million to cooperatives.

New Cooperatives Formed By Commercial Farmers

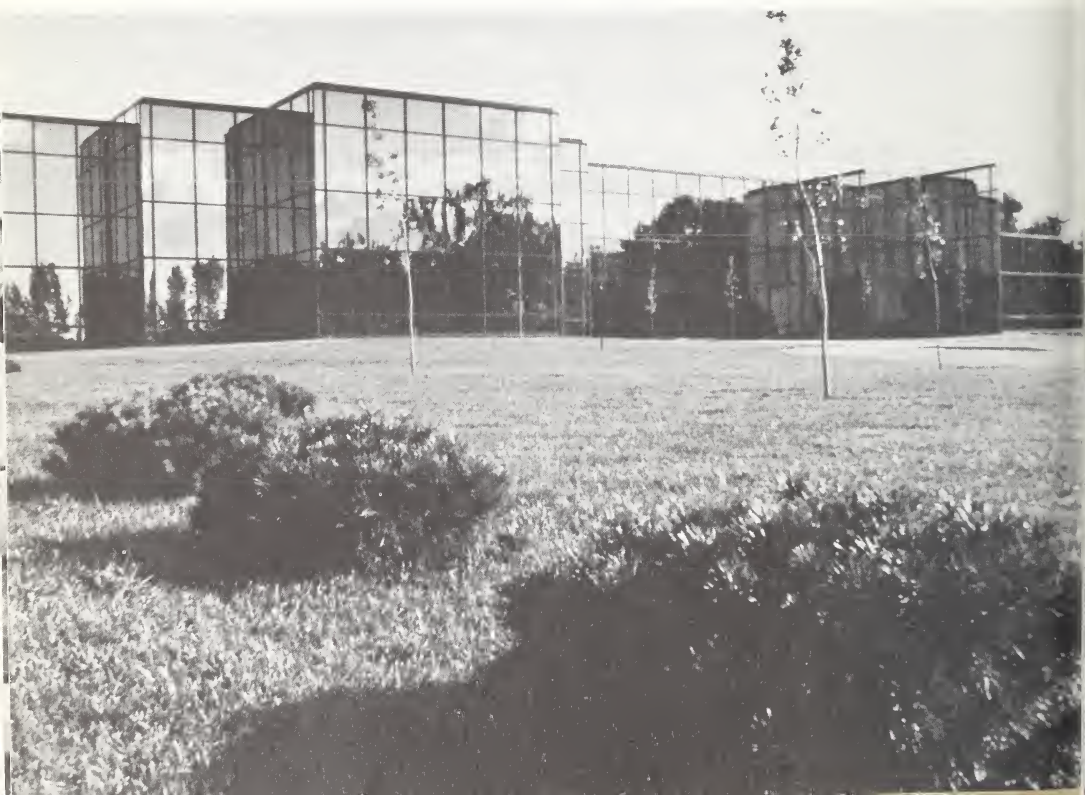
Sugar Beet Processing

Producers of sugar beets in the North Central States had been members of bargaining associations for years, but in the early 1970's they began making plans to do their own processing and marketing of beets. This action was encouraged by the closing of some factories by existing companies and by others indicating they would not expand processing in the area.

In 1973, one group of growers in the Red River Valley, to use an example, purchased the American Crystal Sugar Company for \$66 million. This was done to protect growers' long-term sugar beet production patterns. Due to increasing sugar prices in 1974, the cooperative was able to return payments to growers 50 percent higher than those for the previous year's crop. This permitted the association to make extensive plans for expanding and upgrading facilities.



When Red River Valley sugar beet growers of Minnesota and North Dakota became concerned about the intentions of the only beet processor in their area, they took action to protect their investment. They purchased the processing firm, American Crystal Sugar Company, and converted it to a cooperative. In a few years, they modernized facilities and built a new headquarters in Moorhead, Minn.



Tobacco Marketing

At least 11 cooperatively operated warehouses have been established since 1974 to conduct auction sales of flue-cured tobacco produced in the Southeast. These included one in Georgia, two in South Carolina, and eight in North Carolina. Two other cooperative warehouses have operated in North Carolina since the 1950's. Total number of warehouses in the five principal States producing flue-cured tobacco is nearly 450.

Cooperatives represent about one-fourth of the new warehouse operations started as an outgrowth of 1974 amendments of USDA regulations governing inspection and price support services. Entrance into the tobacco auction warehouse business, once next to impossible, has been eased by the amendments known as "the grower designation plan."

The plan has restored a large measure of competition into the flue-cured auction marketing system. Warehouse operators have sought out customers and have improved existing facilities, or built new ones, to provide better services.

To better serve their own needs, some growers have entered into the new competitive market climate by organizing and operating their own cooperative warehouses. The designation plan has made this possible. Organizers have signed up new grower members and received pledges to designate tobacco to the cooperative.

The plan has also helped the two existing cooperatives in North Carolina to increase their business volume. The Lumberton Cooperative Warehouse, Inc., Lumberton, N.C., one of the two, has been paying refunds and stock dividends amounting to 30 percent or more of the fees and commissions collected for the past several years, but in 1974 the decision was made to hold back all except a fourth of the money and use it in the construction of a 100,000-square-foot addition to their present facility.

But specialists have cautioned organizers of new cooperatives against being overly optimistic. For instance, estimated minimum volume requirements range from 3 to 4 million pounds for a break-even operation. Promises of refunds and stock dividends must be based on adequate business volume, fees and commissions paid, and good management practices. Good management will be difficult to find but is essential to any cooperative that hopes to make it in the highly competitive tobacco warehouse business.

Peanut Storage

With the development of new methods of harvesting and bulk handling of peanuts, old methods of storing bagged peanuts in any available pest-free structure are no longer acceptable. Over the past several years, about 10 cooperatives have been organized to build and operate modern bulk storage facilities in the Virginia-Carolina and Southeastern production areas.

Feeder Pig Marketing and Farrowing

Feeder pig cooperatives are designed to produce and market quality, disease-free feeder pigs. Some are organized by feeder pig producers seeking a suitable market for their pigs. Other cooperatives are organized by pig finishers seeking a reliable source of feeder pigs to purchase.

Feeder Pig Marketing

Cooperatives organized by feeder pig producers began to emerge in the late 1950's. Through their cooperative, producers developed standards and selected a method for marketing pigs. The quality standards helped the cooperative gain a reputation that is usually reflected in premium prices.

The most common marketing practice is to assemble and commingle pigs of like weight and grade from several farmers. Each lot of pigs is usually sold at an auction. Several cooperatives use a teleauction (telephone auction).

Feeder pig cooperatives can be organized at the county level, State level, or multi-State level. In some States, several local cooperatives are organized into a federated State-level cooperative that coordinates sales and sets production standards and trading conditions.

Feeder Pig Farrowing

Cooperatives organized to farrow pigs for farmer finishers began to emerge in the late 1960's. A small group of 20 to 40 producers form a closed membership cooperative and invest a sufficient amount of funds to finance about half of the operation; the remainder is usually borrowed. The total investment is about \$600 per sow.

The cooperative hires a manager and staff, purchases land and builds facilities to farrow about 400 to 1,000 sows on a year-round basis. Each member receives pigs on a rotating basis and in

proportion to the amount of stock held in the cooperative. The pigs are transferred to the members at a cost-plus price rather than market price.

By 1974, there were about 40 farrowing cooperatives in the United States. Many more farrowing corporations have been organized by farmers as Subchapter S corporations. Farrowing cooperatives are found mostly in Nebraska, South Dakota, and Iowa, but also in Kansas, Colorado, Ohio, and several other States.

The farrowing cooperatives are formed by producers who cannot justify a large confinement type of operation on their own farm and therefore join with other farmers for that purpose. Other producers simply want to get out of the farrowing stage of hog production.

Some regional supply cooperatives have been assisting local groups of producers organize feeder pig farrowing cooperatives. The regionals offer this service to help their members increase pork production. The farrowing cooperatives complement the finishing enterprises of the members, and also provide an additional outlet for feed, supplies, and buildings sold by the regional cooperative. A few of the regional cooperatives that operate slaughtering plants have promoted farrowing cooperatives as a means of improving the quantity and quality of local hog production.

Teleauctions for Sheep and Lambs

In the early 1970's, cooperatives began to develop tele-auctions to increase competition for their lambs and to improve marketing efficiency. In most areas of the country in 1969-70, two packing firms bought more than 60 percent of the lambs for slaughter.¹ In southwestern Virginia, where the first teleauction began in the spring of 1971, one buyer bought about 90 percent of the lambs. Since the institution of the teleauction in that area, there are usually 8 to 12 buyers bidding on the lambs. As a result, lamb prices in southwestern Virginia, compared with other markets, increased \$2 per hundredweight in 1971. Lambs sold in the teleauction itself increased \$2.50 per hundredweight, indicating improved convenience and efficiency for packers.

Increased convenience and efficiency arise because of the ease of telephone trading in contrast with the more customary

¹Gerald Engelman, et al. The Lamb Industry: An Economic Study of Marketing Structure, Practices, and Problems. U.S. Dept. Agr. Packers and Stockyards Admin. Res. Rpt. 2. May 1973. pp. 112-115.

country buying and auction buying and because the lambs remain on the farm until after the sale. The sale is conducted just one day a week and the packer-buyer has the option of choosing the day he wants the lambs assembled and delivered.

In 1974, another cooperative organized a teleauction in the Oregon-Idaho area with similar results. Several other States are currently planning to introduce teleauctions. In time, it would be practical to federate the State-level teleauctions into perhaps four regional teleauctions to improve the efficiency of lamb marketing as well as to maintain an effective level of competition among packers. Other methods of marketing could be used by sheep and lamb producers, but the teleauction is uniquely adapted to an industry that is widely dispersed and has relatively few buyers.

If the past trends in sheep production continue into the future, the number of slaughtering plants will also decline. If this occurs, sheep producers may need to consider replacing their teleauctions with a cooperative packing plant for processing and merchandising their product.

New Cooperatives Formed By Low-Resource Farmers Fruit and Vegetable Marketing

A number of "emerging" or "developing" cooperatives have been formed in recent years to service the special needs of small farmers producing fruits or vegetables, principally in the South-eastern States.

Vegetables

As the production of basic crops, such as cotton, shifted to other areas, growers farming small acrages sought alternative income-producing crops. Vegetable crops appeared to provide the best answer to this problem in many situations, but before they could be considered reasonable substitutes, specialized facilities and services were needed.

Over the past decade, cooperatives have been organized to provide both facilities and marketing services to support vegetable production by small growers. Successful operations have given special attention to a combination of production and marketing problems made especially difficult by technical and capital requirements, and the inexperience of many small producers.



Tri-County Farmers Association, Whiteville, N.C., was organized to support the development of vegetable production as a new major crop. In this picture, fresh-market cucumbers are being washed, waxed, and graded for shipment to East Coast markets.

These cooperatives have concentrated on marketing tomatoes, sweet potatoes, cucumbers, peppers, okra, and cabbage, with market demand controlling the product mix. Tri-County Farmers Association, Whiteville, N.C., and Cumberland Farm Products, Inc., Monticello, Ky., have successfully conducted multiproduct sales operations primarily for the fresh market.

Cooperatives serving low-resource farmers in Alabama, Louisiana and South Carolina have marketed a combination of vegetable crops to processors including cucumbers, okra, sweet potatoes, and tomatoes. The high labor requirements of cucumbers for pickling and okra for processing make these crops particularly suitable to the resources of these growers.

Associations specializing in a single commodity, such as tomatoes, have served the commercial trade well. Cooperatives in Arkansas, Louisiana, North Carolina, and South Carolina market tomatoes exclusively to fresh markets, some specializing in pinks and others in vine ripers.

Care must be taken in selecting a new crop, to find one of interest to growers and suited to their production capabilities, as well as one that presents no conflicts for time spent with the other established cash crops. For instance, some cooperatives have been established to help growers produce and market strawberries, only to find the time required for production of a quality product couldn't be spared from the small acreage of tobacco, still the primary source of cash income.

The following information on Tri-County Farmers Association, Whiteville, N.C., provides some detail on the organization and operation of one cooperative.

Many farmers in the coastal region of North Carolina needed some new agricultural enterprises suitable for small acreages because declining acreages of cotton and tobacco no longer provided an adequate living standard for them. A number turned to producing vegetables, with sweet potatoes often becoming the major crop. Producers in Columbus, Brunswick, and Bladen counties then saw the need for a marketing cooperative and sought help from the Cooperative Program of Economics, Statistics, Cooperatives Service (ESCS).

The ESCS Cooperative Program, with the assistance of the Cooperative Extension Service, the State Department of Agricul-

ture, North Carolina Rural Fund for Development (NCRFD), and other organizations, conducted a feasibility study in 1968.

The study analyzed: (1) Demand for vegetables; (2) location of markets; (3) days and months vegetables were in demand; (4) number of farms in the area; (5) size of farms; (6) number of farms producing vegetables; (7) number of potential producers of vegetables; (8) expected vegetable income; (9) estimated production expenses; (10) cost of facilities; and (11) possible sources of financing to construct a vegetable marketing facility.

After finding that vegetable production was feasible, persons representing potential resources were called to a meeting. They included sources for potential members, available technicians from cooperating organizations, and financial aid.

The cooperative was chartered in April 1969, with headquarters in Whiteville. Its marketing facility was completed in mid-1972 and provides assembling, washing, grading, packing, and shipping services.

A major effort at the outset was to introduce new varieties and establish quality control. Supporting agencies conducted training programs for farmers in the production and marketing of quality vegetables. A substantial part of the volume goes outside the State to distant markets such as Montreal and Toronto in Canada.

The average co-op member farms a relatively small acreage of tobacco, still the primary income-producer. At the time the cooperative was organized, the census indicated that about 90 percent of the families earned less than \$3,000 each year. In the beginning, about 80 percent of the co-op's membership was composed of these small farmers. In more recent years, larger farm operators have become active members. The cooperative's board includes several well-established farmers.

Tri-County has developed into a sophisticated marketing outlet. It is pursuing the long-range objective of being able to market a number of vegetable crops that members can grow to complement existing farming operations.

Members who have taken on the production of one or more of the four vegetables handled by the cooperative have increased their net income. For example, cabbage growers in 1974 averaged an additional net income of \$870 from 5 acres. Sweet potato growers realized \$522 from 3 acres. Pepper growers realized \$562 and cucumber growers \$438 each from 1½ acres.

Fruit

Most developing fruit cooperatives are organized by growers with production experience and some investment in existing orchards. However, they may face changes in production technology, market requirements and financial considerations. Such an organization, Missouri Peach Growers Exchange (MPGE) Campbell, Mo., began operations in 1975. MPGE has built a new facility capable of bringing together the expanding production of the Crowley Ridge area, and uniformly grading, packing, and hydrocooling the crop to buyers' specifications for full trucklots. It replaces a number of small inefficient grower operators lacking modern equipment and the capacity for meeting modern market needs. MPGE has substantially improved access to commercial markets and ensured the opportunity for an expanding peach industry in southeastern Missouri.

Cooperative development can come as facility expansion rather than as a new organization or facility. Apple growers in western South Carolina, for example, have had some of the same experience with inadequate facilities as peach growers in Missouri. Organized in the early 1950's, the Longcreek Apple Marketing Authority, Longcreek, S.C., modernized its facilities in 1972, effecting a threefold to fourfold increase in volume marketed.

At Monetta, in the same general area of South Carolina, established peach growers organized the Monetta Peach Cooperative in 1975. This organization is providing a new packing and marketing service.

Feeder Pig Marketing

In much of the coastal region of North Carolina, corn, soybean, and swine production developed as cotton nearly disappeared. The area produced enough grain for feeder pig production but not enough to support hog fattening operations.

Leaders saw the need of an organization to encourage the production and marketing of high-quality feeder pigs and thus formed the Albemarle Cooperative Association, Albemarle, N.C.

Feasibility determination began with consideration of (1) number of farms; (2) size of farms; (3) number of farms producing swine; (4) Producer's potential for increased swine production; (5) expected income; (6) estimated expenses; (7) possible benefits to members; (8) cost of facilities; and (9) source of financing for cooperative facilities.



Rather than continue packing peaches independently in old and obsolete facilities, Missouri peach growers formed Missouri Peach Growers Exchange and built this facility at Campbell, Mo.



Interest was exceptional from the beginning, reflected in the cooperation of local community leaders and technicians of various Federal, State, and county agencies. A meeting was first called of persons representing resources in membership, technical help from cooperating organizations, and financial aid. The cooperative was organized in November 1969 with headquarters in Edenton, centrally located to serve a 10-county coastal region known as the Albemarle.

Shortly after organization, the North Carolina Rural Fund for Development, a nonprofit organization, provided \$25,000 to finance a boar-gilt lease program. A boar and up to 10 bred gilts were supplied to cooperative members who had applied for the program. The producers were selected by a special committee of the cooperative's board and chaired by the area Extension livestock specialist. One member's farm in each of the 10 counties was selected as a demonstration project to show other members how to raise quality animals. These operations were watched closely to assure that high-quality production methods were used. If standards were not maintained, the project was transferred to another member.

From its beginning, the cooperative has helped members select breeding stock, improve production techniques, and get market information. A livestock specialist assigned to the cooperative by the State Extension Service has been on call to visit farms to help solve any production problems.

The feasibility study had indicated that 10 brood sows were the minimum economic unit. Although many producers began with fewer animals, the goal was for them to build toward a 20-sow herd. Some members have built substantial herds. One has 350 brood sows.

The cooperative's market facility enables members to combine small loads of feeder pigs at a central point in sufficient numbers to command a good market price. The feeder pigs are pooled by grade and weight lots according to standards established by the State Department of Agriculture.

On auction days, the cooperative is an assembly point for buyers as well as producers. In-house buyers bid against others taking part through a teleauction network developed by the State Department of Agriculture for the State-regulated feeder pig market.

Auction experience indicates that the volume of graded feeder pigs and the attraction of more buyers through teleauction



Rural family income is being increased considerably for members of the Albemarle Cooperative Association, Edenton, N.C. Graded feeder pigs are penned by size and weight and sold by an auctioneer chanting to buyers listening by telephone and others in the barn.



has tended to increase price. Sales to date indicate that producers have been getting \$5 more per pig than they could have expected before the market was established. The cooperative's auction has clearly defined to producers the advantages of raising quality animals, and that substandard animals bring low prices.

A typical member has 13 brood sows and each year sells 208 pigs. In 1974, he spent an average of \$16 each for production costs and sold each at \$22, thus netting additional income of \$1,248. Therefore, the major purpose of the cooperative—to increase the income of farmers so they can remain on the farm—is being accomplished.

Fish Marketing

Treasure Coast Fisheries Cooperative, Inc., located at Ft. Pierce, Florida, markets fish for about 77 members in the eastern area of Florida. Its purpose is to assemble, pack, ice, store, and ship fresh fish to markets, primarily in the Northeast. It began operations in December 1974 with a projected annual volume of 2½ million pounds.

Traditionally, local fisherman sold their "catch" as individuals without knowing what the selling price might be. If there was a surplus harvest, much of the fish spoiled because storage was not available.

Prior to the organization of the new cooperative, the board of directors requested the ESCS Cooperative Program to conduct a feasibility study. Assistance was provided by numerous Federal, State and local agencies. The board's specific request was to:

- Determine the volume and types of fish that members of the cooperative can and will supply.

- Determine what markets can buy the volume and types of fish that members harvest, and the buyers' specific requirements and standards.

- Ascertain the total capital requirements in terms of land, facilities, equipment, operating capital, and related needs.

- Determine the ability of members to supply the needed financing.

- Develop a financing plan based upon financial ability of members, requirements of lenders, and the total capital requirements of the cooperative.

The study also considered the need for the cooperative, interest of members, and the probable support of the cooperative



This boat typifies how fishermen get their catch, and cooperatives increasingly typify how they market their fish.

by the local business community and by purchasers of fish in terminal markets.

Farm Machinery

From 1964 to 1971, more than 1,300 new cooperatives were given financial assistance totaling \$20.9 million by the Farmers Home Administration under the Economic Opportunity Act of 1964. Two-thirds or more of the members were low-income farmers. Of the 859 loans to cooperatives that had been in operation for 1 year or more in 1968, 730 were machinery-use cooperatives and 129 were marketing associations. Many of the former type, however, operated for only a few years because of management difficulties.

Craft Production and Marketing

Interest in the production and marketing of handicrafts to provide a primary or supplemental source of income has increased substantially in rural areas in recent years. A recent ESCS Cooperative Program survey of craft organizations identified 707 organizations, more than one-third of which have been formed since 1970.

About half of the organizations were formed as nonprofit corporations, but only 6 percent under cooperative statutes. This was due, in part, to restrictions by some States prohibiting formation of cooperatives to market nonagricultural products.

Cooperative formation in crafts has been widely scattered throughout the United States. Early organizational activity occurred in the Appalachian Region and the Northeast. Organization continues to occur in these areas but other parts of the country are experiencing new levels of activity.

Regional development has increased in recent years, reflecting the need to combine the efforts of small local organizations into more efficient and effective programs.

The activities of craft organizations have been changing also. Recent emphasis in training has been toward developing the business and managerial skills of craftspeople. This, along with increased demands in the market, has spurred more groups to enter the wholesale market for crafts, selling to specialty shops, department stores, and gift shops.

Marketing through retail shops continues, also, with constantly improving shops and marketing techniques. Programs such



Handicraft production can be an important income-generating occupation, particularly for senior citizens, when supported by cooperative craft marketing organizations. Below is the attractive sales outlet of Blue Ridge Hearthside Craft Association.



as Appalachia Shop, Lexington, Ky., a federated cooperative shop of 20 production groups, and Artisans Cooperative, Inc., of Chadds Ford, Pa., marketing the output of 40 craft groups, are examples of cooperative marketing efforts that offer great potential for improving the income of craft producers throughout the United States.

Blue Ridge Hearthside Crafts Assoc., of Sugar Grove, N.C., is an excellent example of a new cooperative starting with a small membership and over a period of 6 or 7 years has expanded to a membership of more than 1,150 members. It has a national marketing program and retail stores.

Indian Cooperative Efforts

The ESCS Cooperative Program provided its first cooperative technical assistance for Indians in the early 1950's. This was for a cooperative livestock project for the Seminole Tribes of Florida.

This assistance has been more or less on a continuing basis. The Seminoles now have an excellent 12,000-head cow herd with an outstanding sire program.

The Economic Opportunity Act of 1964, with its grant programs and Title III cooperative loan programs, stimulated some cooperative interest among Indians. However, it wasn't until the early 1970's that some Indian tribes requested assistance in holding cooperative workshops for tribal Indian leaders.

In February 1970, ESCS Cooperative Program held its first Indian cooperative development workshop for the Navajo Tribe. This is the largest reservation in the United States. The 3-day session was held at the Navajo Community College, Many Farms, Ariz. The Four Corners Regional Commission, Farmington, N. Mex., was also actively interested with the Navajos in developing cooperative interest.

In 1970, the Navajos had only two cooperatives—both in crafts, but by 1975, there were more than 20 in all stages of development. These included hay buying associations, marketing cooperatives, co-op grocery stores, and craft cooperatives.

The area almost precludes a network of well-established cooperatives. The reservation is the size of West Virginia with a scattered population of 130,000 and poor roads and communications. Inadequate capital and management are also formidable barriers to the development of viable cooperatives.

The Indian Jojoba Cooperative Program, with heavy technical assistance from ESCS Cooperative Program, is a highlight of Indian activity in southern Arizona and southern California. Two Indian cooperatives were set up with ESCS Cooperative Program assistance. One is the San Carlos Apache Jojoba Marketing Association, San Carlos, Ariz., and the other, The Southern California Jojoba Cooperative Association, Escondido, Calif.

The cooperatives are tribal. The tribes are now in the position of requesting grant funds and technical assistance. Both cooperatives are establishing plantations of domestic jojoba for cultivated production. Large acreages have been committed by the various tribes located in the Sonoran Desert for domestic production.

The jojoba plant grows wild in the Sonoran Desert of Arizona, and California. The female of the species produces berries that contain a 50-percent liquid wax. This wax is a perfect replacement for sperm whale oil. Because sperm whales are on the endangered species list, the jojoba plant takes on tremendous economic possibilities. The liquid wax is needed by industry. This includes the whole spectrum—from transmissions to plastics, pharmaceuticals, etc.

From planting to harvesting the first crop, the time lag is 5 years, hence large capital outlays are going to be needed before a real economic impact is made. Wild jojoba seed collections by Indians were made and processed into liquid wax for testing purposes.

Government grant funds were first secured in 1971 to develop the Indian-oriented industry. The Office of Economic Opportunity and HEW made the grants. Before the Indian cooperatives became grant recipients, grants for the project were given to the University of Arizona, University of California, and the National Academy of Sciences.

Since October 1976, the Bureau of Indian Affairs has become the lead agency for the project as far as continuing the financial assistance. The U.S. Department of Agriculture will continue its role in providing technical assistance through its Special Indian Task Force.

During the years ESCS Cooperative Program has worked with Indian groups in the following States: *Arizona* (Colorado River, Havasupai, Navajo, Fort Apache); *California* (29 bands); *Florida* (Seminoles); *Minnesota*, (Red Lake, Leech Lake); *Montana* (Blackfeet, Crow, Northern Cheyenne); *New Mexico* (Jemez



American Indians hope to develop beans from the jojoba shrub into a cash crop and market these oilseeds cooperatively. Spanish Americans have formed Cooperativa Central, Salinas, Calif., to produce and market strawberries.



Pueblo, Zuni Pueblo); *North Carolina* (Cherokee); *North Dakota* (Fort Berthold); *Oklahoma* (Cherokee); *Oregon* (Umatilla); *South Dakota* (Rosebud, Sisseton); *Washington* (Colville, Lummi, Skokomish, Squaxin Island, Swinomish); *Wisconsin* (Bad River).

Marketing by Spanish-Speaking Americans

Spanish-speaking Americans have begun cooperative development in a limited way. Those that have been organized had limited resources at the outset.

Groups in Florida, Texas, New Mexico and California have organized to market their agricultural products. The most successful one is perhaps the Cooperativa Central, Salinas, Calif. It is a production cooperative as well as one for marketing strawberries grown by its members. Some 50 families are involved. Their cooperative efforts have substantially increased their family income.

Steps in Organizing a New Cooperative

Cooperatives are formed to meet an economic need of a group of farmers. Their need may be better marketing services, greater returns for products, better market outlets, lower costs of farm supplies, better quality supplies, a new specialized service that is lacking, or the like. If a real need does not exist among the farmers, the chances for forming a cooperative or of it succeeding will not be good. This is borne out by past examples of cooperatives promoted by local civic groups, salesmen of creamery equipment, or owners of obsolete or poorly located facilities.

The principal steps in considering and forming a cooperative follow—largely in outline form.

1. Leaders Discuss Problems and Possibilities

A few leaders usually provide the spark for initiating the idea of a cooperative and then getting it organized. They informally talk over the problem and possibility. They look around for an adviser who is familiar with the problem and the area and is knowledgeable about forming cooperatives.

2. Leaders Identify Other Potential Leaders

Although each community and each situation is different, the pattern of successful cooperative development traces to the selection of leadership. How to identify leaders:

a. In many instances, leadership becomes obvious in the natural course of events. Thrust comes from those people with the original idea. Care must be taken, however, that the potential leaders will be effective. A person can be effective in creating interest in the early stages but not in later development and growth.

b. Ask potential members and others whom they consider community leaders.

c. Identify those holding important offices or positions in the community, particularly those with an interest in economic development.

d. Consider a potential leader's previous experience, his involvement with issues and events, and how he handled them.

3. Schedule a Meeting of Potential Members

Select a convenient location. Publicize it in various ways. Prepare an agenda. Appoint a temporary chairman. Ask one or more of the most interested farmers to speak on the possibilities of forming a cooperative. Conduct a discussion. If there is sufficient interest, select a survey committee.

4. Select a Survey Committee to Determine Economic Need and Available Resources

a. This committee would examine the economic need and feasibility of setting up a cooperative; the potential membership and volume; type of service to undertake; facilities and equipment needed and what might be available to rent or buy; a rough estimate of capital needed; minimum volume required; and the like. Prospective cooperative members, in sufficient numbers, must be canvassed to determine if they have a genuine interest in improving their standard of living and if they have the necessary minimum resources.

b. This committee may wish to call on outside assistance in developing or conducting the study such as a county Extension agent, Farmers Home Administration supervisor, manager or president of a nearby cooperative, or an economist from the State Extension Service or State Department of Agriculture, or ESCS Cooperative Program.

5. Call a Second General Meeting to Receive the Survey Report and Present Findings of the Committee

6. Appoint an Organizing Committee

(a) Contact experts in cooperative development or organization (see earlier section). (b) Develop necessary membership application and escrow forms. Sign up minimum number of members. Deposit capital subscribed. (c) Determine capital structure—stock or nonstock. If stock, types and par value. If nonstock, amount of membership fee; use of certificates of equity or indebtedness; use of per-unit capital retains; use of revolving capital plan, and the like. (d) Determine incorporating procedures. Draft articles of incorporation (charter) and other necessary documents and file them if a sufficient number of members are obtained. Draft a set of bylaws and membership or marketing agreements. (e) Arrange for first membership meeting.

7. Conduct First Membership Meeting to Adopt Bylaws and Elect A Board of Directors

Appoint a temporary chairman. Hear and discuss the report of the organizing committee. Discuss and adopt proposed set of bylaws. Elect board of directors.

8. Organize the Board.

Elect officers. Make plans to search for a manager based on agreed upon criteria. Select a bank of depository. Begin plans to acquire facilities. Begin developing general policies. Begin developing a capital budget and an operating budget for the year.

Assistance in Organizing Cooperatives

Early Years

Farmers around local towns and communities in the 1800's associated together in farmer clubs and buying groups to purchase supplies and to market various products. During the 1870-90 period, two general farm organizations, the Grange and Farmers Alliance, introduced cooperative buying and marketing.

From 1890-1920, the Farmers Union and the American Society of Equity became prominent and sponsored many grain and livestock marketing cooperatives in the Midwest. These activities continued in the 1930's. They also advocated the cooperative buying of farm supplies—either as part of marketing associations or through separate cooperatives.

Then in the 1920's, the Farm Bureau promoted and



Delmarva Poultry Cooperative, Inc., Snow Hill, Md., is the first cooperative poultry processing and marketing cooperative to be organized in 25 years. It began operations in 1977.



organized many countywide farm supply cooperatives in the central part of the country. Also, it helped develop regional associations to market grain, livestock, fruits and vegetables, and eggs. In sponsoring the organization of cooperatives, the American Farm Bureau frequently assumed expenses incurred before organization and furnished initial capital. The cooperatives usually repaid such advances.

The Extension Service of many land grant universities also provided much assistance to farmers in forming cooperatives. County agents met with leaders of many local cooperatives and were especially active in helping groups of farmers, local cooperatives, and establishing wool pools. State Extension marketing specialists advised groups of farmers and local cooperatives and provided help in establishing statewide or regional cooperatives. Several later become the first managers of such organizations.

The number of marketing, farm supply, and related service cooperatives reached 14,000 in the mid-1920's. The number active then declined to 10,700 by the midthirties and to 10,150 in the midforties.

Recent Years

In the 1930's and since, more of the assistance in forming new cooperatives has shifted to regional federated cooperatives, State cooperative councils, and Federal agencies serving low-income farmers and other rural residents.

Brief comments regarding the principal types of organizational or technical assistance available follow:

County Extension Services

The county director usually can provide much information on the problems facing farmers; trends in agriculture; and the basic features of a cooperative. He can also be of great help in identifying potential leaders for considering or organizing a cooperative.

State Extension Services

Marketing economists can provide much information on how to conduct feasibility studies; the organization and structure of cooperatives; and the basic factors contributing to the success or failure of cooperatives. Home economists often can provide

assistance to groups interested in forming rural craft cooperatives or guilds.

State Departments of Agriculture

Marketing specialists in some States can provide assistance similar to that of Extension economists.

Farmers Home Administration

County supervisors, depending upon their background and experience, can assist local leaders in examining the possibility of forming cooperatives and counsel them in their organizing efforts and in early stages of operation.

State Cooperative Councils

The executive secretary can provide educational assistance and information of help to leaders and members. He often may have recommended sets of bylaws and procedures for incorporation.

Regional Cooperatives

The general or organizational fieldmen can meet with groups of farmers, leaders, and committees. They can help them determine the feasibility of organizing, facilities needed or available, and capital requirements. And they can assist in organizing membership and capital campaigns.

Local Cooperatives

Managers and officers can provide advice and assistance at meetings of leaders and members. Also they can aid in developing policies and operating budgets.

Bank for Cooperatives

Officers of district banks supervised by the Farm Credit Administration can provide valuable advice on the capitalization, financing, and financial management of farmer cooperatives.

Regional Commissions

Staff members of commissions for the development of rural areas may provide, or contract with other sources to provide,

technical assistance to aid in determining the feasibility of a cooperative, how it might improve the area, and how it might best be organized.

As an example of what such a commission might do, the North Carolina Rural Fund for Development (NCRFD) generated the following involvement of other agencies in organizing a vegetable marketing cooperative:

a. The ESCS Cooperative Program, U.S. Department of Agriculture (USDA), through a contract, provided organizational, economic feasibility, and business operations advice.

b. Soil Conservation Service and Agricultural Stabilization and Conservation Service, USDA, sent representatives to the organization meeting to explain programs available to farmers.

c. The local production credit association provided office space for the cooperative in the early months of organization.

d. Vocational agriculture teachers in the proposed cooperative's three-county area provided classroom and field training.

e. The Cooperative Extension Service, through county agricultural agents, conducted training in vegetable production.

NCRFD obtained the following involvement for a feeder pig marketing cooperative:

a. North Carolina State Department of Agriculture provided the grading and inspection guidelines and the necessary liaison with potential feeder pig buyers to establish the cooperative as a recognized feeder pig marketing outlet.

b. ESCS Cooperative Program provided technical assistance in cooperative organization and development.

c. Cooperative Extension Service assigned a swine specialist to help members with production and disease control problems.

Financial assistance that NCRFD helped arrange is discussed in a later section.

Raising Member Capital In a New Cooperative

Members must provide a substantial amount of the needed capital if the cooperative is to begin operations and succeed. Their funds—called equity capital or risk capital—are necessary to provide a base on which to borrow funds, i.e., to obtain debt capital. And new cooperatives seldom raise all the member equity capital

they need for starting operations.

Obtaining adequate equity and debt capital is one of the more difficult aspects of cooperative development. It takes time for a cooperative to attain the credibility that lenders will recognize.

Cooperatives may be organized with or without capital stock. If members form a capital stock cooperative, stock certificates are issued—with at least one share of common stock—to indicate membership. Preferred stock may be issued to indicate additional capital investment. Stock is generally sold in small denominations to facilitate easy transfer, sale, or redemption.

If members form a nonstock cooperative, a membership fee plus per unit capital retains from proceeds of marketing farm products are used. Revolving fund certificates often are used to evidence such capital retains.

As an indication of interest and loyalty, members should invest as much as possible in the cooperative before it approaches established lenders. Substantial investments by members toward the total financial needs of the cooperative help convince the lender of their credibility and determination to make it succeed. If, for example, the total capital need is \$200,000 and each of 200 members pledges \$300—or \$60,000—an established lender is more likely to lend the remaining \$140,000 than if the only member capital contributed is \$5,000 by means of a \$25 membership fee. In many circumstances, lenders will lend money to individual members of a cooperative to purchase stock. Successful cooperative development requires a personal and financial commitment by members.

Members also may provide debt capital by investing in certificates of indebtedness (or similar names) or debenture bonds that have a fixed maturity date and rate of annual interest.

An intensive campaign needs to be organized among local leaders for raising member capital—whether among low-resource or high-resource farmers. At the general meeting of prospective members, considerable funds may be received or pledged. This meeting then may be followed by organized teams of leaders calling on farmers in various districts of the interested area. Notes may be accepted as payment for stock or other evidence of equity, but they could involve some risk in collection or a reduction in value if discounted through a local bank.

Assistance in Financing a New Cooperative

Most new cooperatives usually are not able to raise sufficient capital from members and therefore must borrow funds for acquiring facilities or for operating capital. Generally, facility capital is easier to borrow because buildings and equipment can be provided as security.

Cooperatives with reasonable prospects for success, a substantial amount of member equity capital, and some facilities to offer as security can borrow funds.

Medium- to High-Resource Cooperatives

1. Individuals.

Individual members and nonmembers may invest in certificates of indebtedness, debenture bonds, or make straight loans to a cooperative. Such funds usually are short term and for operating purposes.

2. Local Banks.

Banks usually lend operating funds on a short-term basis. Some may not have sufficient funds to make large long-term facility loans.

3. Banks for Cooperatives.

These banks are supervised by the Farm Credit Administration and provide two-thirds or more of the credit that farmer cooperatives in this country use. They make short- and long-term loans, and the principal purposes are facility, operating, and commodity. They usually do not loan more than 60 percent of the total capital requirements of the cooperative, and expect land, buildings, and equipment to be offered as security for term loans.

4. Industrial Revenue Bonds.

Some local communities that are interested in attracting new business can raise considerable funds by selling industrial revenue bonds.

5. Credit Associations or Corporations Affiliated with Regional Cooperatives.

Loans often are made to new cooperatives that cannot borrow sufficient funds from other sources—either because of lack of operating experience or security, or both.

6. Rural Electrification Administration (REA).

This agency of the U.S. Department of Agriculture makes loans for the construction and operation of electric transmission and distribution lines or systems and generating plants, and rural telephone systems. Loans may be made for periods up to 35 years. Interest rates vary depending on area use of power. Also, since May 1973, REA has had the authority to guarantee loans made by other lending agencies.

7. National Rural Utilities Cooperative Finance Corporation (CFC).

This organization is owned by borrowers of REA and was formed to provide supplemental financing to electric borrowers. It may provide up to 30 percent of the total loan funds to a borrower.

8. Rural Telephone Bank

This is a governmental agency. The Administrator of REA serves as Governor of the Rural Telephone Bank. It makes loans to telephone borrowers—both cooperatives and private companies—who are eligible to obtain loans from the Rural Electrification Administration. It supplements REA financing. It also guarantees loans made by other lending agencies.

Low-Resource Cooperatives

1. Local Banks.

Some banks may make direct loans. Others may participate in loan programs guaranteed by the Farmers Home Administration or Small Business Administration.

2. Farmers Home Administration.

This agency can make limited loans for cooperative development—both to cooperatives and their members. Recently, most of its activity has been in the guaranteeing of loans to local banks or to district banks for cooperatives.

3. Small Business Administration.

This agency usually will not consider lending to a farmer cooperative unless it has been turned down by a district bank for cooperatives or a local bank. Most of its activity has been in guaranteed loan programs with local banks.

4. Foundations.

A few of these may make grants to help provide organizational or management assistance to cooperatives.

5. Local Development Corporations.

In certain instances, these may provide funds, usually in a secondary role. As an example, the North Carolina Rural Fund for Development (NCRFD) generated involvement in financing a vegetable marketing cooperative in the following ways:

a. Farmers Home Administration, USDA, made loans to individual co-op members and \$216,000 to the cooperative to buy land and construct a packaging and grading facility.

b. Rockefeller Foundation made a \$28,000 grant to help provide management assistance.

c. Additionally, NCRFD provided funds for salary and expenses for one full-time employee and financial assistance to management during the first year of operation.

NCRFD obtained assistance for a feeder pig marketing cooperative in the following ways:

a. Farmers Home Administration made loans and gave intensive financial guidance to individual members.

b. The cooperative's \$45,000 facility loan was obtained through a local bank and the Small Business Administration. The bank also provided office space in the cooperative's early stage of organization.

6. Regional Commissions.

Several regional commissions have been authorized by the Congress to assist an area of several States to implement economic development through local development corporations and cooperatives.

Good Management a Necessity

Good overall management in a cooperative begins with a well-informed membership selecting competent board members. The manager, the board, and the membership have complementary but separate responsibilities. The membership selects the board. The board hires the manager and establishes the objectives and policies of the cooperative. The manager hires the staff and supervises day-to-day operations. However, the membership must be kept informed of the cooperative's objectives and operations through a continual education program.

The board must recognize the need for separating responsibilities between operating management and the board. Occasionally, a strong and aggressive director may tend to encroach on the activities of the manager. He may not be aware of his interference because of his strong desire to assist the cooperative.

New cooperatives in particular require the best in hired management. The usual obstacle is that the economic situation in the typical new cooperative means it cannot afford the salaries and expenses of good management. In the beginning, it may be possible to hire highly qualified managers or staff part-time. Or, semiretired people may consent to work at reduced salaries in small associations for a short time. But the association soon must acquire a capable full-time manager and other employees if it is to provide continuing beneficial services to members. Often technical assistance from various sources can be used to improve management capability, or in some instances, special provisions can be made to attract highly qualified management.

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COOPERATIVE PROGRAM

U.S. Department of Agriculture
Economics, Statistics, and Cooperatives Service

The Cooperative Program of ESCS provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Program (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Program publishes research and education materials and issues *Farmer Cooperatives*. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.